



Environment California Research & Policy Center
Main Office: 3435 Wilshire Blvd. #385 • Los Angeles, CA 90010
Phone (213) 251-3688 • Fax (213) 251-3699
Lobby Office: 1107 9th Street, Suite 601 • Sacramento, CA 95814
Phone (916) 446-8062 • Fax (916) 448-4560
www.EnvironmentCalifornia.org

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**Written Comments to the Little Hoover Commission on the Schwarzenegger
Administration's Proposal to Create a Department of Energy
By Bernadette Del Chiaro, Clean Energy Advocate
Environment California Research & Policy Center**

Organizational Background

Thank you for the opportunity to comment on the Schwarzenegger Administration's proposal to create a California Department of Energy.

Environment California is a non-profit, non-partisan environmental organization focused on protecting California's air, water and open spaces. We have 160,000 California members and activists statewide. For the past decade, we have worked on state and federal energy policy, within multiple decision-making forums including all of the state energy agencies, as well as the legislature. The lens through which we analyze public policy focuses on the potential benefits and impacts to the environment and public health as well as impacts on public participation and decision-maker accountability.

We look forward to participating in process in the future. If you wish to contact me, I can be reached at 916-446-8062 x 103 or by email at Bernadette@EnvironmentCalifornia.org.

What are the State's greatest challenges in developing a cohesive energy policy?

The greatest challenge to developing a cohesive energy policy for the state of California is the creation of a central planning process that prioritizes a shift away from the state's dependence on polluting, expensive, and unsustainable energy resources, namely fossil fuels and nuclear power, and that is developed with meaningful input from other relevant government agencies, the legislature, and the public. In order for this planning process to be effective, there also is a need for stronger regulations that flow from it. Without these two things, having a cohesive energy policy in which the public interest is protected and California's precious economic and energy resources are maximized will continue to be a challenge.

The task at hand for our state regulators, therefore, is to create a truly cohesive energy policy framed by a prioritization of demand reduction strategies and resource diversification with non-polluting renewable energy, including clean distributed generation. Clear leadership and vision will be required of our leaders in order amidst demands for additional conventional generation capacity and infrastructure to achieve the long-term goals of energy reliability, stability, and sustainability.

Since California's energy choices impact more than just ratepayers and consumers, comprehensive and cohesive energy plans and policies would define "cost" to include external costs such as environmental and taxpayer impacts. The nuclear industry, for example, has received more than \$100 billion in federal subsidies since the end of World War II. Studies have shown that fine particulate air pollution from power plants causes premature death and asthma attacks, imposing health care and other costs on the economy. Environmental damage caused by the extraction of fossil fuel resources is extremely costly to remediate – and the potential economic damage that could be caused by global warming to California is incalculable. Spikes in natural gas prices – driven in part by increased demand from electric power plants – have had widespread economic ramifications beyond increases in electric rates. A truly comprehensive energy policy and decision-making process, therefore would reinstate the certificate of need requirement for all new generation and transmission approvals.

Unfortunately, at the root cause of many of California's energy problems is the opening up of wholesale power markets – coupled with retail deregulation – that has limited the opportunities of California regulators to insist upon the factoring in of external costs. Within the regulatory process, the best opportunities to bring true least-cost principles to bear are in long-term resource planning.

The bottom line is California's energy problems stem from an anemic planning process combined with too few regulations to harness growth, protect ratepayers, and ensure a clean energy future. While recent progress has been made regarding both energy efficiency and the development of renewable energy markets in California, this progress has only happened because the legislature has adopted some of the nation's strongest regulations. These regulations have historically stemmed from energy crises as opposed to coming out of a long-term energy plan intended to avert such crises.

How does the State's organizational structure impede or enable the resolution of those challenges?

The call for clear leadership and a comprehensive energy planning process coupled with effective regulations is certainly hampered by a lack of clear authority, as well as a lack of legal requirements, for any one government entity to lead the charge for a clean, sustainable, energy policy and plan. In contrast, establishing a Department of Energy that has the power to adopt long-term energy policies and strong regulations that truly create a cohesive and comprehensive energy policy is a step in the right direction.

However, without the right framework in place at the outset that establishes public interest priorities an efficient organizational structure won't, by itself, ensure public and environmental protections. Strong leadership is needed today if the best energy policy framework, able to withstand the political tides of future administrations, is to be created to meet California's short and long-term energy needs.

Certainly Governor Schwarzenegger's support for renewable energy and energy efficiency is laudable and exemplary. But ultimately the Governor needs to steer California away from unwarranted fears and toward sound public policy that goes beyond minimum standards, putting clean energy resources at the heart of California's energy supply.

Does the Governor's proposed reorganization plan solve these structural deficiencies?

In short, the proposed reorganization takes some very meaningful steps in the right direction but is limited in its ability to solve the root deficiencies in California's long-term energy planning process.¹

Consolidating the duties and authorities of the CPA and the Oversight Board, for example, is a way to achieve a worthwhile goal, in and of itself, of making government more efficient. An inefficient, disempowered government does not serve the public interest.

Further, creating a Secretary of Energy and a Department of Energy is justified given the importance of energy as a resource and the profound impacts of our current imbalanced energy system on our communities, economy, and environment. And, there could be situations in which having a Department of Energy, headed by a Secretary who was able to effectively implement existing law, would result in clear progress for California's environment.

For example, implementation of California's law requiring solar power be installed on state buildings has been implemented with lackluster by other state departments, due in large part, to a limited interpretation of the statute. Were there an Energy Secretary charged with increasing solar power in California, he or she would certainly be better able to effectively interface with their counterparts to install more solar power systems on state buildings saving the taxpayers money and reducing air pollution.

Ultimately, however, as discussed above, more needs to be done by the current Administration to ensure a reliable, affordable and sustainable energy supply is achieved. A clear example of where the Administration's

¹ It is worth noting that the current reorganization proposal is a far cry from previous ideas, publicized by the California Performance Review, such as eliminating the Public Utilities Commission, among other necessary independent agencies.

proposal might better prioritize clean, renewable energy and energy efficiency would be to state within this proposal that the duties of the Division of Energy Analysis are not simply to analyze supply and demand, incorporating only the minimum established energy efficiency and renewable energy standards. Rather, the Division should be required to incorporate in their analysis demand reduction and renewable energy resources, including clean distributed generation, when creating their integrated reports of future supply and demand. In other words, the Division of Energy Analysis should be charged with helping the state plan for the maximization of clean, cost-effective energy instead of assuming statutory floors are ceilings and do nothing more to provide information to decision-makers on the potential for alternatives to conventional supply and demand strategies.

Does the plan create any new challenges for developing and implementing a cohesive energy policy?

While we agree with the basic notion that having clear accountability over energy planning and supply enhances government accountability, one challenge created by this proposal is to ensure that bureaucratic simplicity and government accountability doesn't come at the expense of public participation. In other words, any step forward must include a strengthening of genuine public participation. The Little Hoover Commission may wish to explore ways to strengthen meaningful public participation within some of the most important decisions to be made by the Energy Commission, namely the siting of energy facilities and the representation of California before the Federal Energy Regulatory Commission.

Further, a more insidious challenge to this proposal might be the threat that the marketing of it gives a misperception that simply reorganizing state government, is enough to ensure the state's energy resources and needs are better managed, planned for, and protected. This could hurt efforts down the road to truly overcome the challenges mentioned above of creating long-term energy policies and plans that protect the public interest.

What impact might the new organizational structure have on the price and reliability of energy in the state?

Again, while we support the concept of creating a Department of Energy and of making government more efficient by collapsing various energy related agencies into one, there's little in this plan that gives the public an *assurance* that it will result in an aggressive and effective diversification of California's energy resources and a prioritization of developing the cleanest, cheapest, most efficient infrastructure and resources – a key to lowering and stabilizing energy costs.

How will the structure affect the ability of consumers to influence decision-making and understand their choices?

Creating a Secretary of Energy who is directly accountable to the governor will give consumers, and the public at large, a greater understanding of their choices at the ballot box as well as a clear understanding of the decision-maker to whom they can hold accountable for protecting their interests.

But again, simply creating this position, without also increasing the ability for the public to be directly involved in the decision-making process, is a missed opportunity. All major decisions made by the Department should be subject to enhanced public review and participation. Further, given the increased power over critical energy decisions proposed in this plan, the Energy Secretary, Department of Energy staff, and the Commissioners should be held to higher than usual conflict of interest standards.

Thank you again for the opportunity to submit these written comments. Please feel free to contact me if you have any questions at 916-446-8062 x 103.